THE ECONOMIC RECONSTRUCTION OF AUSTRIA 1945-1952

I. ECONOMIC SCIENCE IN AUSTRIA: TEACHING, RESEARCH AND WRITING

At the end of the Second World War, in April 1945, when Austria, in accordance with the Moscow Declaration of October 1943, had been admitted as a political entity into the circle of European nations, hunger, need and economic breakdown stood by as sponsors at the cradle of her newly erected statehood. The three political parties made a solemn declaration of independence through their faction leaders on April 27, 1945, concerning constitutional fundamentals and judicial and administrative arrangements necessary for the development of an articulate democratic life. At the outset they faced the difficult task of creating modest living conditions for the Austrian population. In view of the destruction of material potentialities, the undernourishment of the population, the absence of hundreds of thousands of experienced hands (still prisoners of war), the disorganization of the communication system, the dislocation of large parts of the population, the regrouping in the vocational structure, the lack of raw materials, fuel and electrical energy, and the disorganization of the monetary system and the urgency for reorientation of the entire economic scheme along the lines of changed European and worldwide economic aspects, a more active tempo of intellectual life could be achieved only slowly after overcoming the direst of needs (1947-1948). Then, however, fostered by the old, venerated seats of learning and the reestablished economic organizations and institutions, a faster pace of acceleration set in which, in continuance of the best national economic tradition, soon reestablished the synthesis between theory and practice.

Pure science knows no prejudice, it favors no particular political trend; it simply serves human progress. On the other hand, it is clear that in the endeavor to assert moral truth, science, in an ever critical and authoritative manner, has to separate truth from untruth, the genuine from the spurious, if it desires to accomplish its high task. Therefore, even a small country has to accept an

000 intellectual responsibility for it is ultimately the mental conceptions which determine the social, political and economic profile and, beyond that, the life of the peoples.

815 Austria's school of national economics, with which Menger, Böhm-Bawerk, Philippovich, von Wieser, and many others were connected during the second half of the last century and the first quarter of the present century, has produced in the succeeding generations distinguished personalities whose intellectual accomplishments have become authoritative in the present interval of new social and economic formulations. Although postwar Austria cannot compete with the scope of foreign scientific publications, her cognizance of economic science, based upon tradition and experience, provides her with mental equipment necessary to solve her distinctly difficult social and economic problems. (This is exclusive of the work of Austrians living abroad, particularly in the United States and England.)

000 Sketching the economic ideas, which have become the educational fundaments of the present generation, will be attempted in the following chapter.

A. <u>The Scientific Contribution of Austrian Scholars to Present Day Economic Thinking.</u>

815 Austria has twice exerted basic influence on economic science. The first time through the school of the older and younger Cameralists ("Kameralisten") of the 17th and 18th century and the second time, in a far more extensive manner, through the so-called Austrian School of National Economy.

In this study, devoted to describing the economic status of postwar Austria (beginning with 1945) it will be impossible to cover exhaustively the fundamentals of the older Austrian school with which so many illustrious names in the field of political economics are connected. However, they will be mentioned in broad outline since their works, their pioneering ideas and especially their doctrines, modified by modern thought, have creatively influenced the younger generation.

The treatment of social problems, which characterized economic teachings during the second half of the 19th century, probably fostered the development of social politics and sociology but neglected (for the time being) consideration of elementary economic relationships and, therewith, economic theories. The latter in its "classical form" was rejected, inasmuch as historical relativism, lacking an understanding of general legalities, quashed any attempt to establish special rules from universally conceded principles and acknowledged perceptions, acquired in such a manner, as only a systematization of economic ideas pertaining to the time involved. As a result there occurred a discrepancy between economic science and applied economics.

Carl Menger, who instituted a new era of national economic research (Grundsätze der Volkwirtschaftslehre, 1871), established the connection between theory and applied economics on the strength of their relationships and reciprocal effects. His ideas became authoritative with regard to modern "market economy," the re-institution of which is also the aim of the ERP program.

Menger is one of the first who penetrated through the surface tendencies of markets, barter values, prices, profits, revenues, wages, etc., getting down to the core of economics. In his opinion the latter is not directed by independent regulations, free of human influence, but is shaped by actions of individuals. The economically active human being becomes the center of observation; his needs represent the starting point and their satiation the end point between which economic thoughts and actions occur. Between these two terminals, therefore, actions take place, and from their multiplicity generally accepted economic principles are derived.

Menger approached his research from a thoroughly empirical basis, characteristic of the realism of modern theory, in deliberate contradiction to philosophical or metaphysical speculations or to politically oriented constructions. Through an ingenious analysis of the processes of price origins, he concluded that, basically, the price structure rests upon the evaluation which consumers attribute to a certain commodity. This evaluation (subjective) begins with the estimate of the value of the

● 815 necessity, that value which people attribute to it to satisfy their need within a certain limited period of time. The values themselves, however, are linked to the degree of satiation that can be obtained (satiation law).

Of importance for the demand for a certain commodity, as Menger concludes further, is the subjective value which purchasers attach to it marketwise. This individual evaluation established prices, the latter regulates the extent of the production volume, which in turn determines the intensity of the producer's demand for personal and material production means. These, again, determine the prices of the output and the materials, and the levels of wages, of rents (real estate) and of capital utilization (interest) from which is derived the income of the owners of productive means. This constitutes a chain of causes and events encompassing the entire economic process. The law of calculating a value can be derived only on the basis of this interpretation, i.e., economy receives its impulses from the satiation of human needs since it is the utility as well as the welfare-purpose connected with it which determines the price. The theory of utility ("Nutzwerttheorie") confronts the theories of value of costs and value of labor ("Kostenwerttheorie," "Arbeitswerttheorie") of classic thought. From this theory of marginal utility (v. Wieser) that the value of higher ranking commodities (various stages of production means) results from the anticipated value of lower ranking commodities (consumer goods), Eugen von Böhm-Bawerk, Friedrich von Wieser and Hans Mayer later derived the "attribution theory" (distribution problem) peculiar to the Austrian school.

These economists supplemented and further developed the ideas of Menger. The researches of Böhm-Bawerk and von Wieser embrace the problems of values and price structure and later the problem of capital interests. Based upon the value principle of Menger, Böhm-Bawerk's work centers around the structure of values of production goods. For its participation in the production process of consumer goods, certain values of the latter are added in. With Böhm-Bawerk's standard work, Positive Theorie des Capitals (1896), which, like Menger's "Grundsätze," represents the earliest critical reply to the theory of capital of Karl Marx, and with his extensive social-political treatise ("Power or Economic Law," 1914), the zenith of the Austrian School was reached. Wieser occupied

himself once more with the relation existing between value and cost and developed the conception of so-called "marginal utility," which became one of the most important and decisive elements of modern economic theory. He proved the unity of economics via the value principle and the interconnection of economic processes; he introduced new ideas about the theory of money and in 1926 published his great work Das Gesetz der Macht (The Law of Power) wherein he grapples with socio-political problems. 815

Thinking in more systematic terms and with a more national economic conception, was the late Eugen von Philippovich (deceased 1917). In his Grundriss der politischen Oekonomie he examined the nature, organization and development of economy and derived a comprehensive systematization of elementary economic facts (necessity, demand, commodities, services, value, prices, money, and credit). He thus places human economic endeavors within the scope of a certain social order, whereby performance and equivalents were agreed upon in relation to terms of purchase, barter, rent, lease, etc. It is his opinion that the provisioning of human beings with commodities is accomplished by means of exchange, which in turn brings order into the economic relations of people. This order reflects partially the free decisions of the individuals involved, but is also influenced by social forces, especially the nation and the law. National economy is therefore the economic endeavor of members of a nationally disposed people, linked together by exchange-relations, by regulations of private and public law and by membership in social communities with an independent economical leadership such as government and municipality. His point of view approaches the so-called organic tendencies.

The enumeration of the works of Böhm-Bawerk, von Wieser and Philippovich is not a complete one and, therefore, represents only those of their publications which became important in the development of international science. (The same applies to the enumeration of the publications of other authors, especially those published after 1945.) Between these three and the younger generation of national economists stand Hans Mayer, who succeeded von Wieser as professor at the University of Vienna, and Ludwig von Mises. Mayer worked first to solve the questions left open by Böhm-Bawerk and von Wieser (division of national income, value and price constructions of production means, 1930), concentrated on the construction and the conclusion of

815 economic production processes, developing thereby the causal coherence of all economic occurrences. Pamphlets followed on the theory of prices and methods (Preistheorie und Methodenlehre. 1932), a review of marginal utility levels (Gesetz vom Grenznutzenniveau), and one about the functional theory of Jevons, Walras, Pareto, and Cassel. Additional studies of Mayer cover the theory of market prospects and the shifting of taxes. Together with R. Reisch and the American F. A. Fetter, he published, in addition to the periodical Zeitschrift für Nationalökonomie, the compilation on economic science on an international scale, Die Wirtschaftstheorie der Gegenwart (1927-1932). There were contributions by the following Austrians: A. Ammon, C. Grünberg, E. Lederer, Hans Mayer, L. von Mises, R. Reisch, R. Schüller, J. Schumpeter, and R. v. Strigl.

Mises, following Wicksell, occupied himself originally with the theory of money and banking and later became the initiator of the theories of market prospects of the younger marginal utility theorists. He was, like his pupil J. A. v. Hayek, a leading representative of the monetary market prospect and crisis theory. Mises paid particular attention to questions relating to the most appropriate development of economy, critical examinations of the operational possibilities of "free" or "limited" economic organization, which were also debated during the procedures for the Austrian nationalization legislation of 1946 and 1947. The endeavors of von Mises became finally the basis upon which the "neo-liberals" like von Hayek, W. Röpkes, etc., issued their newer and latest publications. (His works include: Theorie des Geldes und der Umlaufmittel 1912. Die Gemeinwirtschaft, Untersuchung über den Sozialismus, Liberalismus, Kritik des Interventionismus, Nationalökonomie, 1940. Burocracy, 1945. Planned Chaos, 1947, etc.)

The succeeding (present) generation of Austrian national economists concerns itself mainly with problems of market prospects, especially since 1937.

In this connection questions pertaining to the theory of money (Hayek, Kerschagl), the theory of income (Mahr) and the theory of wages (Striegl) in addition to the theories of foreign trade (G. v. Haberler, J. Machlup) and the doctrine of systematization (Hayek, under the influence of von Mises) are still scrutinized. Mises, Haberler, A. Lauterbach (The Road to Serfdom. 1946; Economic Security and Individual Freedom. 1949, a reply to the studies of

Hayek and Machlup as well as a discussion of the work of O. Morgenstern and the mathematician J. v. Neumann, The Theory of Games and Economic Behavior, 1944) and P. N. Rosenstein-Rodan (marginal utility theorist) are lecturing presently at leading universities in the United States, as is the finance scientist, Schumpeter. Hayek is connected with the School of Economics, London, while A. Ammon (Volkswirtschaftliche Grundbegriffe und Grundprobleme, 1938) lectures at Bern, Switzerland. 815

Some of the more prominent theorists working in Austria are: H. Bayer (Sozialisierung und Planwirtschaft, 1947) presently at the University of Innsbruck; L. Illy (Das Gesetz des Grenznutzens, Untersuchungen über die Wirtschaftsrechnung des Konsumenten, 1949); R. Kamitz (critical reviews and pamphlets about currency policy and author of the voluminous treatise on the Austrian money and currency problem, 'Die österreichische Geld- und Währungspolitik von 1848-1949,' published in the compilation 100 Jahre österreichischer Wirtschaftsentwicklung 1848-1948 by Hans Mayer, university professor, Vienna); R. Kerschagl (Handelspolitik,1949) (Das Geld von Heute, 1949); A. Mahr (Volkswirtschaftslehre, 1948, one of the most up-to-date manuals on national economy to come from the Austrian School); and O. Weinberger (Grundriss der Volkswirtschaftslehre, 1949). The present lecturer of political economy at the University of Vienna, Professor F. Degenfeld-Schonburg likewise does not reject the principles of utility value.

Besides the theorists of the utility doctrine there were and are other scientists at work. The so-called "organic branch" is represented by O. Spann's Die Ganzheitslehre and by F. v. Gottl-Ottilienfels Die Gebildlehre. Spann confirmed originally the utility theory of the Austrian School, replacing it later by the "Leistungstheorie" (performance theory), i.e., directing operational economic means towards fixed economic goals, just as he generally considered economy to be a part of the social and organic unit. [Universalism. Basic thought: "Wirtschaft ist Gesellschaft" (economy is society) and "Gesellschaft ist nicht Summation einzelner Individuen sondern lebendiger Widerhall der Geister" (Society is not a summation of separate individuals but a living echo of intellects).] Gottl perceives a scale of the economic theory: "Grundlehre" (Basic principles), "Formlehre" (principles of

● 815 structure) and "Gestaltungslehre" (principles of development), whereby occurrences within the society are reflected in the particular social establishments as, for example, in the relation of necessity and satiation in an economy. In addition, representatives of the "organic principles" are E. H. Vogel (Theorie des Bedarfdeckungsprozesses und der Einkommensbildung, 1945), who, in his works on financial science, does acknowledge the influence of the Austrian School; W. Heinrich (Wirtschaftspolitik, 1948), a pupil of O. Spann who follows the trend towards social universalism and H. Tautscher (Bankenverstaatlichung; Zur Frage des gestuften Zinses, 1946; Staatswirtschaftslehre des Kameralismus, 1947). Tautscher, sharing partially the ideas of Vogel, nevertheless follows a more neo-mercantile trend while Th. Pütz (Theorie der allgemeinen Wirtschaftspolitik und Wirtschaftslenkung, 1949) follows Gottl.

National economists of a more conservative viewpoint, whose interests center more around questions of economic and social policy, are F. Degenfeld-Schonberg, F. A. Westphalen and E. Lagler. The sociologist A. M. Knoll is a close associate.

Theorists of the socialistic conception, who, besides historical researches, promulgate questions of planned economy, prospects and crises, socialization and union problems, include: C. Grünberg, Emil Lederer, J. Marschak (agrarian problems).

816 647 Next to the pure theorists are to be mentioned practical economists, with accumulated knowledge and experience, who, in responsible public positions, promulgated the Austrian course in many a crisis. Of the large number, just a few recent ones can be mentioned.

V. Kienböck was formerly minister of finance and president of the Oesterreichische Nationalbank. After the First World War, as financial expert of Federal Chancellor Ignaz Seipel, he effected the currency reform. Kienböck is at present consultant to the Oesterreichische Nationalbank. His book on currency and economy appeared in 1947 (Währung und Wirtschaft).

W. Taucher was minister of commerce and chief of the Chamber of Commerce of Graz in Styria. He is now managing the ERP Central Office within the Federal Chancellery. Taucher lectures at the University of Graz on economic policies.

Karl Renner, the late federal president, who died in 1950, occupied himself particularly with social-political questions. Despite his age and professional obligations he published during the last years Die neue Welt und der Sozialismus, 1946, Vom liberalen zum sozialen Staat, 1948, besides numerous social-political contributions. 643 816

The minister of foreign affairs, Karl Gruber, who also lectures on national economy as "Privatdozent" at the University of Vienna, published Voraussetzungen der Vollbeschäftigung, 1946, and Die Zusammenhänge zwischen Grösse, Kosten und Rentabilität industrieller Betriebe, 1948. 645 816

From this it may be seen that the Austrian national economists, whether they be theorists or practical experts, provide a strong unity of theory and practice. Teachers of universities (especially of the University of Vienna), are frequently entrusted by the government with important economic tasks which they perform within the sphere of a higher public function or upon an economic level. 815 816

Besides the colleges, also the Bundeskammer der gewerblichen Wirtschaft (a chamber organization), especially the Chamber of Commerce, Vienna, and the Austrian bureaucracy (particularly the Ministry of Commerce and the Ministry of Finance) have leading economists in their employ.

This synthesis of science and practical experience also accomplished in the postwar years the solution of various problems, no matter whether they concerned questions of currency, banking and credit, production and investment policies, and, in connection with the Marshall Plan, the drawing up of economic programs, foreign trade, foreign exchange and payment balances. From the above it may be seen that the younger generation of Austrian economists in ministerial service has been able to master the problems arising with the initiation of the Marshall Plan on the strength of its thorough theoretical schooling.

B. Organizations and Publications in the Field of Economics.

815 Austria boasts of a number of leading societies and institutions which foster theoretical national economics and current economic policies. The "Nationalökonomische Gesellschaft" (National Economic Society), Vienna, established in 1918, covers the field of theoretical national economics. The present chairman is Hans Mayer, already mentioned above. The "Gesellschaft österreichischer Volkswirte" (Society of Austrian Economists) follows an economic-political course. It was founded by the late member of parliament, Dr. Alexander Peez, in the eighties of the last century, and is presently under the chairmanship of Dr. Ernst Mosing, former president of the Oesterreichische Boden-Credit-Anstalt. The "Oesterreichisches Institut für Wirtschaftsforschung" (Austrian Institute of Economic Research), founded under the sponsorship of the Vienna Chamber of Commerce in 1927, gained international repute under qualified leaders (since 1945 F. Nemschak and E. John). The 816 regularly published monthly bulletins Monatsberichte, con- 204 taining numerous statistical data, are not only important for the official economic policy, but also provide private practical economists with valuable material. Chairman of the board of trustees is the former minister Dr. H. C. Eduard Heinl, president of the Creditanstalt-Bankverein, vice-chairmen are the retired secretary-of-state, Karl Mantler, president of the chamber of workers and employees, and Dr. Hans Mayer, professor at the University of Vienna. Besides comprehensive treatises with regard to the development of the Austrian economy (annual reports) and general surveys of prospective trends (monthly reports), studies in various economic sectors are being undertaken and the results published. They provide a clear picture of the development of Austria. Particularly numerous were last year's publications, among which the following questions were analyzed: margins in the price and wage structure; larger seasonal unemployment following an over-dimension of construction programs; the new federal budget (1950); business failures in Austria since the end of the war; current questions about production increases; the situation in international raw material markets; the production and use of milk and milk products in Austria; the fourth price and wage agreement; the raw material markets of the fourth quarter, 1950; development of the working week in industry; the federal budget in 1951; Austria's economy at the end of 1950; Austria's bread consumption.

461 Oesterreichisches Institut für angewandte Arbeits-
446 wissenschaft (Austrian Institute of Applied Science
816 of Work), Vienna, under Dipl. Ing. Otto Korwik. Employing principles of work-psychology, this institute has undertaken research work within large plants on production increases, improvement of quality, of production, working conditions, etc. The magazine Mensch und Arbeit, published by the Arbeitsgemeinschaft für Psychotechnik in Oesterreich (Committee for Psycho-Technics in Austria), Vienna, covers this field. On the board of trustees of this committee are former minister Dr. H. C. Eduard Heinl, member of parliament and president of the Gewerkschaftsbund Johann Böhm, as well as many other prominent individuals.

654 Thanks to a release of ERP-counterpart
313 funds, it will be possible to establish an Austrian Institute for Timber Research. The lumber industry is one of the most important in Austria. This Institute shall furnish the work industry with new theoretical and practical ideas, which in turn should benefit production. The Institute will cooperate closely with the testing laboratories of the technical colleges of Vienna and Graz.

217 Scientific as well as economic endeavors
815 are being supported by large libraries. The Wiener Handelskammer (Chamber of Commerce), for instance, accumulated during the one hundred years of its existence more than 150,000 volumes, becoming thereby not only the largest library of economic science in Austria but probably also in central Europe if one takes into account the losses incurred during the last war. The latest foreign publications are in its collections and it is continuously frequented by economists as well as students of national economics. The library of the Oesterreichische Institut für Wirtschaftsforschung contains 10,000 volumes, mostly about market prospecting and foreign trade, while the library of the Institut für Wirtschaftswissenschaften an der Wiener Universität with its 30,000 volumes comprises works of theoretical economics besides international publications.

204 Austria also has a number of well-edited
815 periodicals for political economy. The oldest one in the economic field in Austria, adhering to a scientific background and serving an extended reader clientele, is Der Oesterreichische Volkswirt (The

793 536 were also made use of, at first in connection with religious stories; subsequently we find stories taken from history, especially after the beginning of historical studies early in the 18th ceptury. From the rulers of antiquity by way of the ancient German and Lombard kings up to the reigning House of Hapsburg, all with high rank or well-known names which might serve either as an example or a warning to youth were brought into these plays. It is noteworthy that a number of subjects reappeared in the literature of subsequent decades, especially in the period of classicism. In the Jesuit Theatre we find, to mention only a few examples, a forerunner of Schiller's "The Robbers", as well as of the "Iphigenie" of Goethe and Körners' "Zriny". Thus the Jesuit Theatre was of value in preparing the way for the literature of later times, as well as because it was in itself the most comprehensive theatre organisation known to history. Far and wide it cleared the ground for the professional stage by making the cultured classes acquainted with the theatre from their earliest youth. In many towns of the Jesuit "Province" of Austria—for example in Hungary—it was [517] the immediate forerunner of the professional theatre. The value of this Jesuit Theatre lay not so much in the grandiose stage presentation at some particular place such as Vienna or Graz, nor in the literary value of the works of such a man as Avancinus, but rather in its achievements for the general development of culture. Its mission once fulfilled, it faded away.

793 871 815 With Rousseau's "Age of Enlightenment" there began a conflict about the Jesuit schools which for two centuries had supplied the Emperor with his leading statesmen and to which the Counter-Reformation in Austria owed its success. The main argument against them was that they were in themselves reactionary and their methods old-fashioned. Yet it was just the Jesuit schools which in the first half of the 18th century proved themselves to be thoroughly progressive, for it was they who introduced the teaching of history and encouraged study of the natural sciences. In Vienna they founded a "*Museum Mathematicum*", the first institute of its kind in Austria and a precursor of the modern museums, and pursued definite educational aims through its collection of physical and astronomical instruments. The Jesuits were also the first in this part of the world to make serious experiments in physics and chemistry and to demonstrate them in public. The Emperor Franz, Consort of Maria Theresia, even called the Brothers to Schönbrunn Palace to make such demonstrations.

Until the latter half of the 18th century the students in the Jesuit schools of the Austrian Province numbered more than 16,000 and although thereafter their numbers began to decrease slowly, the abolition of the Order put an end to an educational system which was still flourishing.

793 873 545 The final performance at the theatre in the Bäckerstrasse was given in the year 1760 by the sixth class, that of rhetoric, which acted "Menaeus"—actually the last play produced by the Jesuit Theatre in Vienna. The beauty of the play, the acting of